# CABLETEL COMMUNICATIONS CORP.

## ANNUAL REPORT 1998

Cabletel Communications is the largest full-service distributor of broadband equipment to the Canadian television and telecommunications industries, offering a wide variety of products required to construct, build, maintain and upgrade broadcasting and telecommunications systems. In addition, the company's engineering department offers technical advice and support to customers. Cabletel's manufacturing division supplies international clients with products for deployment in cable distribution systems. Cabletel Communications Corporation shares are listed and trade on the Toronto and American Stock Exchanges under the trading symbol TTV.

## SELECTED FINANCIAL DATA

Canadian dollars in thousands, except per share amounts

| Years ended December 31, | 1998 | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|
| OPERATIONS | | | | | |
| Sales | **$ 42,630** | $ 53,706 | $ 58,725 | $ 44,016 | $ 48,302 |
| Expenses | ***$15,148** | *10,076 | 7,718 | 6,530 | 5,644 |
| Net Income (Loss) | **(7,785)** | (589) | 989 | 622 | 1,485 |
| FINANCIAL POSITION | | | | | |
| Total Assets | **$ 18,116** | $ 28,756 | $ 36,125 | $ 15,872 | $ 17,048 |
| Net Income (Loss) per Share | **(1.19)** | (0.09) | 0.19 | 0.14 | 0.37 |

*Included in expenses are restructuring charges of 7,098 in 1998 and 1,045 in 1997.

## DIRECTORS' REPORT

### TO OUR SHAREHOLDERS

Change is a constant in all our lives, and the pace of change taking place in the broadcasting and telecommunications industries has been exceptional. Consolidation and convergence continued to dominate the landscape in 1998 as new companies emerged to offer new services, existing companies reinvented themselves, and mergers and acquisitions created larger entities.

Even a cursory review of the business pages in 1998 illustrated the pace of change as cable and telephone companies realized new revenues from providing internet services, new wireless competitors such as satellite and MMDS companies attracted subscribers, and even power companies planned strategies to distribute voice, data and video through existing distribution systems. Clearly, digital technology and the internet are having a profound impact on Cabletel's traditional customer base.

Cabletel did not experience in 1998 the kind of financial results which you, as shareholders, expect. Sales were lower than expected, and the Company carried forward losses from the 1996 acquisition of the Canadian distribution business of ANTEC Corporation. One of the biggest changes Cabletel experienced in 1998 was the decision in the fourth quarter to write-off losses associated with the ANTEC acquisition. The write-off resulted in the Company recording a one-time non-cash restructuring charge of $7,098,077. The decision to write-off the goodwill was not made in haste, but only after first considering the impact and benefits to the Company.

Cabletel is now moving forward. In October of 1998 we announced a four-point plan to return the Company to profitability. Specifically we made it a priority to rebuild Cabletel's sales capabilities by developing a higher level of relationship selling. Secondly we recognized a need to capitalize on the changes in the industry, particularly in the areas of convergence, by diversifying our products and the markets we sell to. Thirdly, we decided to invest in Stirling, our manufacturing division. Finally, we committed to further reducing our non-essential costs.

### THE FUTURE

We are pleased to report that in the fourth quarter we began to execute the four-point strategy. We made significant changes to revitalize our sales initiatives. New resources, energy and staff were invested to ensure we have an aggressive and responsive sales force. Secondly, we strengthened our management team and created a new division called Cabletel Technologies. This division is now operational and marketing many of the Company's existing products, as well as new products to an expanding list of customers. Cabletel Technologies is targeting wireless distributors, the telephony market and the broadcasting industry. Thirdly, new resources were committed to Stirling. Specifically, capital was allocated to upgrade the manufacturing equipment and production will move into a new facility in the second quarter of 1999. In addition, the division entered into an agreement with a Taipei based company to inexpensively accommodate overflow manufacturing to ensure Stirling can accept unscheduled large volume orders. As a result of these initiatives, orders for Stirling have already increased. Finally, overall costs for Cabletel were reduced in those areas which were not creating value. The Company entered 1999 with a strong balance sheet, no long-term debt, and a significant backlog of orders.

The changes taking place in our industry are driving many of our existing customers to increase capital spending as they upgrade their systems to remain competitive and meet the demands of their own customers. The growth of the internet, and the demand by business and consumers for faster internet service are creating a huge demand for high speed, two-way interactive services. Cabletel has many of the products required to deliver this interactivity, and a host of other new digital services from high definition television to on-line banking. These factors are creating an environment in which we can build Cabletel into a strong profitable company. We intend to help our customers meet their needs offering innovative solutions and the products required to compete in today's changing landscape.

Cabletel has turned the corner, thanks to the support and commitment of our employees, suppliers and customers. In particular, a word of thanks to Sheldon Rittenberg who was appointed Vice Chairman of the Board after serving as President of Cabletel for 25 years. Sheldon has been, and continues to be a valued asset to the Company. Finally, to you our shareholders, our thanks for your support, and a commitment to continue to strive to increase shareholder value and to communicate Cabletel's successes to all of our stakeholders.

On behalf of the Board

D. Gregory Walling
President & Chief Executive Officer
May 6, 1999

Arnold S. Tenney
Chairman

Year Ended December 31, 1998

## LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 1998, bank indebtedness increased by $69,396 to $4,995,887, mainly due to reductions in inventory of $2,495,875, earnings cash flow of $286,473, which were mainly offset by payments of accounts payable and accrued liabilities of $2,459,543, and income taxes of $524,968.

Cash provided by operations was $489,519 with reductions in inventory and accounts receivable which together provided $3,241,356, were offset mainly by reductions in accounts payable and income taxes of $2,984,511.

The lower levels of inventory reflected efforts taken by the Company to reduce its liabilities while maintaining a high level of customer service. Reductions in accounts receivable and accounts payable were reflective of reductions in business.

Due to related parties decreased by $715,000 as a result of the payment of the amount due to ANTEC in 1998.

The Company has no material commitments for capital expenditures.

The Company believes its lines of credit are adequate for its current needs. It has operating lines of credit available from a Canadian chartered bank of up to $7.4 million. The facility is renewed on an annual basis on April 30 of each year, bears interest at rates ranging from prime plus 0.60% to prime plus .85% and is secured by general assignments of book debts and inventory, demand debentures in the amount of $7.4 million in the aggregate constituting a first fixed and floating charge on certain assets and a second fixed and floating charge on the land and building, and assignments of insurance. The Land and Building in Markham, Ontario, were disposed of in February 1999, and the proceeds of sale were used to reduce Bank Indebtedness.

## SEASONALITY

Generally, the Company's business exhibits a moderate level of seasonality as sales of its products typically increase during the second and third quarters, due primarily to weather conditions in Canada.

## INFLATION

The Company believes that the relatively moderate rates of inflation in recent years have not had a significant impact on its net revenues or profitability. Historically, the Company has been able to offset any inflationary effects by either increasing or improving cost efficiencies.

## YEAR 2000

During 1998, the Company developed a plan to deal with the Year 2000 problem and has began converting its computer systems to be Year 2000 compliant. The plan provides for the conversion efforts to be completed by the end of 1999. The Year 2000 problem is the result of computer programs being written using two digits rather than four to define the applicable year. The total cost of the project is being funded through operating cash flows. The Company is expensing all costs associated with these systems changes as the costs are incurred. As of December 31, 1998 an immaterial amount has been expensed and the total estimated costs of the Year 2000 problem is expected to be immaterial.

## RECENT ACCOUNTING PRONOUNCEMENTS

In June of 1998, the Financial Accounting Standards Board issued Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. SFAS 133 is effective for the company's 1999 fiscal year.

Year ended December 31, 1997

During the year ended December 31, 1997, bank indebtedness decreased $3,409,514 to $4,926,491, mainly due to reductions in inventory which amounted to $2,189,081 and earning cash flow of $698,212.

Cash provided by operations was $4,469,739 with reductions in inventory and accounts receivable which together provided $6,678,304, offset mainly by reductions in accounts payable and income taxes of $2,947,595.

The lower levels of inventory reflected steps taken by the company to reduce its bank indebtedness while maintaining a high level of customer service. Reductions in accounts receivable and accounts payable were reflective of reductions in business.

Due to related parties decrease by $655,000 as a result of the payment of the amount due to ANTEC in 1997.

The Company has no material commitments for capital expenditures.

The Company believes its lines of credit are adequate for its current needs. Each of Cabletel and Stirling has operating lines of credit available from a Canadian chartered bank of up to $7.5 million and $400,000, respectively. Each facility is renewed on an annual basis on April 30 of each year, bears interest at rates ranging from prime plus 0.60% to prime plus 1.00% and is secured by general assignments of book debts and inventory, demand debentures in the amount of $7.9 million in the aggregate constituting a first fixed and floating charge on certain assets and a second fixed and floating charge on the land and building, and assignments of insurance. Cabletel and Stirling amalgamated January 1, 1998.

Years ended December 31, 1998 and December 31, 1997

## RESULTS OF OPERATIONS

Sales of $42,629,701 for the year ended December 31, 1998 reflect a decrease of $11,075,827 or 20.6% as compared to the year ended December 31, 1997. The decrease reflects weaker capital spending by Canadian cable operators, as well as more intense competition from other distributors and manufacturers selling direct to customers.

Gross profit as a percentage of sales for the year ended December 31, 1998 was 15.42% as compared to 16.94% for the year ended December 31, 1997. The decrease in the gross margin reflects change in product mix as well as a more competitive environment.

General and administrative expenses decreased approximately $903,446 for the year ended December 31, 1998 as compared to the year ended December 31, 1997. The Company has made a diligent effort to continue to control operating costs in light of decreased revenues due to weaker spending by Canadian cable operators while maintaining its operating infrastructure.

Restructuring charges increased by $6,053,077 to $7,098,077. The increase is substantially all due to a write off of all the Goodwill associated with the ANTEC acquisition.

Amortization was virtually unchanged at $890,676.

Interest on Bank Indebtedness of $364,223 was virtually unchanged from the previous year. Interest on long term debt decreased by $70,492 due to the repayment of all amounts due to ANTEC.

Income taxes recovered for the year ended December 31, 1998 of $787,445 represents a tax rate of 9.1%. The rate of 9.1% reflects a tax recovery of approximately 42% on losses of $1,540,000. The remainder of the loss in 1998 being approximately $6,628,000 is attributable to the write-off of the Goodwill associated with the ANTEC acquisition. The tax benefit of this loss has not been recorded.

The foregoing discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains forward-looking statements which reflect management's current views with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date thereof.

## AUDITORS' REPORT

To the Shareholders and the Board of Directors of
Cabletel Communications Corp.

We have audited the balance sheets of Cabletel Communications Corp. as at December 31, 1998 and 1997 and the statements of operations and deficit and cash flow for the years ended December 31, 1998, 1997 and 1996. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1998 and 1997 and the results of its operations and cash flow for the years ended December 31, 1998, 1997 and 1996 in accordance with accounting principles generally accepted in Canada.

Kraft, Rothman, Berger, Grill, Schwartz & Cohen

Kraft, Rothman, Berger, Grill, Schwartz & Cohen LLP
Chartered Accountants
Toronto, Ontario
January 29, 1999

## BALANCE SHEETS
(Canadian Funds)

| December 31, | 1998 | 1997 |
|---|---|---|
| ASSETS | | |
| CURRENT | | |
| Cash | **$ 5,655** | $ 5,182 |
| Accounts receivable (net of allowance of $191,756; 1997 – $201,643) | **6,545,303** | 7,332,784 |
| Inventory (Note 3) | **8,454,691** | 10,911,161 |
| Income taxes recoverable | **681,075** | 156,107 |
| Prepaid expenses and other | **151,489** | 97,690 |
| Future income taxes (Note 9) | **232,500** | 90,000 |
| | **16,070,713** | 18,592,924 |
| CAPITAL (Note 4) | **1,454,740** | 1,872,600 |
| FUTURE INCOME TAXES (Note 9) | **590,400** | 588,742 |
| GOODWILL (1997 net of amortization of $743,359) | **—** | 7,707,030 |
| | **$ 18,115,853** | $ 28,761,296 |
| LIABILITIES | | |
| CURRENT | | |
| Bank indebtedness (Note 5) | **$ 4,995,887** | $ 4,926,491 |
| Accounts payable | **6,417,127** | 8,898,310 |
| Accrued liabilities | **470,064** | 448,424 |
| Due to related parties | **—** | 686,659 |
| | **11,883,078** | 14,959,884 |
| SHAREHOLDERS' EQUITY | | |
| CAPITAL STOCK (Note 6) | | |
| AUTHORIZED | | |
| Unlimited First preferred shares, issuable in series | | |
| Unlimited Common shares | | |
| ISSUED | | |
| 6,545,112 Common shares (1997 – 6,495,112) | **14,893,245** | 14,677,245 |
| DEFICIT | **(8,660,470)** | (875,833) |
| | **6,232,775** | 13,801,412 |
| | **$ 18,115,853** | $ 28,761,296 |

See accompanying notes to financial statements.

Approved on behalf of the Board:

Gregory Walling, Director

Jeff Chelin, Director

## STATEMENTS of OPERATIONS and DEFICIT

(Canadian Funds)

| For the years ended December 31, | 1998 | 1997 | 1996 |
|---|---|---|---|
| SALES | **$ 42,629,701** | $ 53,705,528 | $ 58,725,037 |
| COST OF SALES | **36,053,730** | 44,605,230 | 48,970,969 |
| GROSS PROFIT | **6,575,971** | 9,100,298 | 9,754,068 |
| EXPENSES | | | |
| Selling, general and administrative | **6,795,077** | 7,698,523 | 6,760,550 |
| Restructuring charges (Note 8) | **7,098,077** | 1,045,000 | — |
| Amortization | **890,676** | 891,646 | 597,510 |
| Interest on long-term debt | — | 70,492 | 63,660 |
| Interest – other | **364,223** | 369,861 | 296,105 |
| | **15,148,053** | 10,075,522 | 7,717,825 |
| EARNINGS (LOSS) BEFORE INCOME TAXES | **(8,572,082)** | (975,224) | 2,036,243 |
| Income taxes (recovered) (Note 9) | **(787,445)** | (386,600) | 1,047,500 |
| NET EARNINGS (LOSS) FOR THE YEAR | **(7,784,637)** | (588,624) | 988,743 |
| DEFICIT, beginning of year | **(875,833)** | (287,209) | (1,275,952) |
| DEFICIT, end of year | **$ (8,660,470)** | $ (875,833) | $ (287,209) |
| Earnings (loss) per share (Note 10) | **$ (1.19)** | $ (0.09) | $ 0.19 |

See accompanying notes to financial statements.

## STATEMENTS of CASH FLOW
(Canadian Funds)

| For the years ended December 31, | 1998 | 1997 | 1996 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Net earnings (loss) for the year | $ (7,784,637) | $ (588,624) | $ 988,743 |
| Goodwill written off | 7,143,030 | — | — |
| Imputed interest | 28,341 | 70,492 | 28,167 |
| Future income taxes recovered | (144,158) | (200,742) | (83,000) |
| Amortization | 1,041,302 | 1,006,620 | 701,186 |
| Provision for (recovery of) doubtful accounts | 42,000 | 2,000 | (58,000) |
| Provision for (reduction in) allowance for inventory obsolescence | (39,405) | 408,466 | 300,000 |
| Changes in assets and liabilities | | | |
| Accounts receivable | 745,481 | 4,489,223 | 1,170,476 |
| Inventory | 2,495,875 | 2,189,081 | (1,472,094) |
| Prepaid expenses and other | (53,799) | 40,818 | (46,605) |
| Accounts payable and accrued liabilities | (2,459,543) | (2,174,787) | (1,758,371) |
| Income taxes | (524,968) | (772,808) | 590,041 |
| | 489,519 | 4,469,739 | 360,543 |
| FINANCING ACTIVITIES | | | |
| Bank indebtedness | 69,396 | (3,409,514) | 4,958,116 |
| Due to related parties | (715,000) | (655,000) | (62,500) |
| Long-term debt | — | — | (572,417) |
| Issuance of common shares | 216,000 | — | 1,588,371 |
| | (429,604) | (4,064,514) | 5,911,570 |
| INVESTING ACTIVITIES | | | |
| Purchase of capital assets | (59,442) | (410,037) | (450,872) |
| Goodwill acquired | — | — | (1,103,901) |
| Net assets acquired | — | — | (4,776,229) |
| | (59,442) | (410,037) | (6,331,002) |
| CHANGE IN CASH | 473 | (4,812) | (58,889) |
| CASH, beginning of year | 5,182 | 9,994 | 68,883 |
| CASH, end of year | $ 5,655 | $ 5,182 | $ 9,994 |

See accompanying notes to financial statements.

## NOTES to FINANCIAL STATEMENTS

(Canadian Funds)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which, except as described in Note 15, conform, in all material respects, with the accounting principles generally accepted in the United States.

#### (a) Amalgamation

Effective January 1, 1998, Stirling Connectors Inc., a wholly-owned subsidiary, was amalgamated with the company.

#### (b) Inventory

Inventory is valued at the lower of cost (first-in, first-out) and net realizable value. Cost includes appropriate elements of duty, freight, material, labour and overhead.

#### (c) Capital Assets

Capital assets are recorded at cost. Amortization is being provided for over the estimated useful life of the asset on the straight-line basis at the following annual rates:

| | |
|---|---|
| Building | 5% |
| Plant and equipment | 20–50% |

#### (d) Foreign Currency Translation

The company does not have non-monetary assets and liabilities denominated in foreign currency.

Monetary assets and liabilities are translated into Canadian dollars at the year-end exchange rate, while foreign currency revenues and expenses are translated at the exchange rate in effect on the date of the transaction. Resulting exchange loss of $46,336 (1997 – loss of $35,021; 1996 – loss of $43,155) are included in income.

#### (e) Goodwill

Goodwill is stated at cost less accumulated amortization on a straight-line basis over the estimated useful life, being 15 years. The management determines the potential permanent impairment in value of goodwill and its estimated useful life annually, based on estimation of fair value.

During the year, it was determined that there was a permanent impairment in value, therefore, goodwill has been written off and was charged to restructuring charges.

#### (f) Future Income Taxes

In fiscal 1998, the company adopted the asset and liability method, required by the Canadian Institute of Chartered Accounts (CICA) Handbook section 3465, to provide for income taxes on all transactions recorded in the financial statements. The asset and liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities and their tax bases. Future income tax assets and liabilities are determined for each temporary difference based on the tax rates which are expected to be in effect when the underlying items of income and expense are expected to be realized. There was no material impact of the financial statements from the retroactive application of the new standard.

#### (g) Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

## 2. ACQUISITION OF ANTEC CANADIAN DISTRIBUTION BUSINESS

On August 29, 1996, Cabletel acquired the Canadian distribution business of ANTEC Corporation ("ANTEC"). The purchase has been accounted for by the purchase method and as such results of operations for this business have been included for the period beginning August 30, 1996. The acquisition was achieved by a combination of cash and shares as noted below.

| | |
|---|---|
| Net assets acquired | |
| Total current assets | $ 11,677,384 |
| Total liabilities | (7,083,627) |
| Other | 182,472 |
| | 4,776,229 |
| Goodwill (15 year amortization) | 8,450,389 |
| | $ 13,226,618 |
| Consideration given | |
| Cash – ANTEC | $ 4,593,359 |
| Term notes | 1,238,000 |
| Common shares to Antec | 6,108,488 |
| Common shares to ARC | 1,286,771 |
| | $ 13,226,618 |

The common shares issued to Cabletel's majority shareholder, ARC International Corporation ("ARC") as part of the transaction were part of a series of transactions where Cabletel issued shares to ARC in exchange for cash and this cash was then paid to ANTEC where it was then invested in 500,000 ARC shares.

As part of the transaction, ARC converted its term debt into common shares of Cabletel.

Assuming the acquisition had taken place at the beginning of 1996, the unaudited pro forma condensed results of operations for the periods noted would have been as follows.

| | |
|---|---|
| Revenue | $80,954,028 |
| Net income | 704,133 |
| E.P.S. | .11 |

The unaudited pro forma financial information presented is not necessarily indicative of the results of operations that would have occurred had the acquisition been effective at the beginning of the respective periods.

## 3. INVENTORY

| | **1998** | 1997 |
|---|---|---|
| Raw material | **$ 251,934** | $ 234,874 |
| Work in process | **360,006** | 428,858 |
| Finished goods | **7,842,751** | 10,247,429 |
| | **$ 8,454,691** | $ 10,911,161 |

## 4. CAPITAL ASSETS

| | **1998** | | | 1997 | | |
|---|---|---|---|---|---|---|
| | **Cost** | **Accumulated Amortization** | **Net** | Cost | Accumulated Amortization | Net |
| Land | **$ 248,700** | **$ —** | **$ 248,700** | $ 248,700 | $ — | $ 248,700 |
| Building | **1,138,303** | **508,124** | **630,179** | 1,102,269 | 418,781 | 683,488 |
| Plant and equipment | **3,009,116** | **2,433,255** | **575,861** | 2,952,300 | 2,011,888 | 940,412 |
| | **$ 4,396,119** | **$ 2,941,379** | **$ 1,454,740** | $ 4,303,269 | $ 2,430,669 | $ 1,872,600 |

## 5. BANK INDEBTEDNESS

The bank indebtedness consists of overdraft accounts, bears interest at prime plus .6% to .85% per annum (December 31, 1998 – 6.81% to 7.60% per annum) and is secured by general assignments of book debts and inventory, demand debentures constituting a first fixed and floating charge on certain assets of the company and assignments of insurance. The weighted average interest rate was 7.27% (1997 – 7.45%; 1996 – 6.49%).

## 6. CAPITAL STOCK

| | Number | Amount |
|---|---|---|
| Balance, January 1, 1996 | 4,575,000 | $ 5,707,719 |
| Issued during 1997 pursuant to: | | |
| Exercise of options | 70,000 | 301,600 |
| Acquisition (Note 2) | 1,684,959 | 7,395,259 |
| Exchange of long-term debt | 165,153 | 1,272,667 |
| | 1,920,112 | 8,969,526 |
| Balance, December 31, 1996 and 1997 | 6,495,112 | 14,677,245 |
| Exercise of options | 50,000 | 216,000 |
| Balance, December 31, 1998 | 6,545,112 | $ 14,893,245 |

Common shares have been reserved for stock options on the following basis.

| | Shares | Option Price |
|---|---|---|
| Outstanding and exercisable | | |
| at December 31, 1995 | 650,000 | $ 4.00–5.00 |
| Granted – 1996 | 310,000 | 4.00–8.55 |
| Exercised | (70,000) | 4.00–5.44 |
| Cancelled | (75,000) | 4.00 |
| Balance at December 31, 1996 | 815,000 | 4.00–8.55 |
| Granted – 1997 | 275,000 | 4.43–7.69 |
| Cancelled | (245,000) | 4.00–5.72 |
| Balance at December 31, 1997 | 845,000 | 4.00–8.55 |
| Exercised | (50,000) | 4.00 |
| Granted | 301,000 | 1.53–3.44 |
| Cancelled | (30,000) | 4.00–8.55 |
| Balance at December 31, 1998 | 1,066,000 | 1.53–8.55 |

During the year, 525,000 of previously issued options priced between $4.00 and $8.55 were re-priced at $1.53 each.

## 7. RELATED PARTY TRANSACTIONS

The company is party to certain agreements and transactions in the normal course of business with its parent company. Significant related party transactions not disclosed elsewhere include:

| | **1998** | 1997 | 1996 |
|---|---|---|---|
| Management fees to parent company | **$ 300,000** | $ 300,000 | $ 351,000 |
| Interest incurred with respect to term notes (Note 2) | **28,341** | 70,492 | 106,395 |

## 8. RESTRUCTURING CHARGES

In connection with the acquisition of ANTEC business (Note 2), the company consolidated its operating activities, resulting in a write-down of certain inventory in 1997 and goodwill in 1998 and severance payments associated with reduction in the company's work force.

## 9. INCOME TAXES

The provision (benefit) for income taxes consists of:

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Current income taxes | | | |
| Federal | **$ (408,120)** | $ (114,158) | $ 753,000 |
| Provincial | **(235,197)** | ( 71,700) | 377,500 |
| Future income taxes | | | |
| Federal | **(94,489)** | (108,480) | (55,000) |
| Provincial | **(49,669)** | (92,262) | (28,000) |
| | **$ (787,475)** | $ (386,600) | $ 1,047,500 |
| Statutory rate | **44.0%** | 44.6% | 44.6% |
| Income taxes at statutory rate | **$ (3,771,716)** | $ (434,900) | $ 908,165 |
| Items non-deductible for income tax purposes and other | **2,984,271** | 48,300 | 48,335 |
| Effect of lower tax rates of manufacturing losses | | — | 91,000 |
| Income tax expense | **$ (787,445)** | $ (386,600) | $ 1,047,500 |

Sources of Future Income Tax Balances

| | 1998 | 1997 |
|---|---|---|
| Future income tax assets: | | |
| Net operating loss carry-forwards | **$ 480,000** | $ 515,434 |
| Capital assets | **110,400** | 45,588 |
| Inventories | — | 26,000 |
| Share issue cost | — | 91,720 |
| Accruals not currently deductible | **97,200** | — |
| Goodwill | **2,244,900** | — |
| Total gross future income tax assets | **2,932,500** | 678,742 |
| Less: Valuation allowance | **(2,109,600)** | — |
| Net future income tax assets | **$ 822,900** | $ 678,742 |
| Future income tax liabilities | **$ —** | $ — |

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the projected future taxable income and tax planing strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 1998.

## 10. EARNINGS PER SHARE

### (a) Basic Earnings per Share

The weighted average number of shares outstanding amounted to 6,543,029 for the year ended December 31, 1998 and 6,495,112 and 5,249,204 for the years ended December 31, 1997 and 1996, respectively.

### (b) Fully Diluted Earnings per Share

For purposes of calculating the fully diluted earnings per share, the earnings applicable to common shares were increased by the savings on the interest expense on the debt which would have been reduced by the cash received on the exercise of the options. The exercise of options had no dilutive effect on earnings per share for the years ended December 31, 1998, 1997 and 1996.

## 11. COMMITMENTS

(a) Commitments for leased premises and certain contracts have been made as follows:

| | |
|---|---|
| 1999 | $ 535,275 |
| 2000 | 401,903 |
| 2001 | 205,841 |

(b) The company has an employment contract with certain key officers and a management contract with the parent company.

(c) The company has signed an agreement of purchase and sale to sell its land and building at 120 Gibson Drive, Markham, Ontario, for $1,020,800, with a closing date of February 15, 1999.

## NOTES to FINANCIAL STATEMENTS

### 12. FINANCIAL INSTRUMENTS

(a) The company is engaged primarily in the sale of highly diversified line of telecommunication products principally in Canada. The company performs ongoing credit evaluation of its customers' financial condition and, generally, requires no collateral from its customers.

(b) The carrying amounts reflected in the balance sheets for accounts receivable, accounts payable and accrued liabilities approximate the respective fair values due to the short maturities of those instruments.

### 13. STATEMENTS OF CASH FLOW

(a) Non-cash Transactions

Non-cash activities in 1996 included issue of notes and shares to Antec, $1,238,000 and $6,108,488, respectively, in exchange for acquisition of assets and conversion of long-term debt from related parties of $1,272,667 into common shares (Notes 2 and 6).

(b) Supplementary Information

| | **1998** | 1997 | 1996 |
|---|---|---|---|
| Income taxes paid | **$ —** | $ 465,418 | $ 580,459 |
| Interest paid | **$ 335,882** | $ 369,861 | $ 331,598 |

### 14. SEGMENTED INFORMATION

The company is considered to operate in one industry segment, being the sale of telecommunications products in one geographical segment, being Canada.

### 15. UNITED STATES ACCOUNTING PRINCIPLES

(a) Net earnings per share calculations under U.S. GAAP reflecting the Statement of Financial Accounting Standards No. 128 for the years ended December 31, 1998, 1997 and 1996 would be presented as follows.

| | **1998** | 1997 | 1996 |
|---|---|---|---|
| Net earnings per share | | | |
| Basic | **$ (1.19)** | $ (0.09) | $ 0.19 |
| Diluted | **(1.19)** | (0.09) | 0.18 |
| Weighted average shares outstanding | | | |
| Basic | **6,543,029** | 6,495,112 | 5,249,204 |
| Diluted | **6,944,960** | 6,607,168 | 5,488,517 |

(b) Accounting for stock options and pro-forma disclosures required under SFAS 123.

Issued by the Financial Accounting Standards Board in October, 1996, SFAS 123 establishes financial accounting and reporting standards for stock-based employee compensation plans as well as transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. This statement defines a fair value based method of accounting for employee stock option or similar equity instruments, and encourages all entities to adopt that method of accounting for all their employee stock compensation plans. However, it also allows an entity to continue to measure compensation cost for those plans using the intristic value based method of accounting prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees.

Entities electing to remain with the accounting in Opinion 25 must make pro-forma disclosures of net income and, if presented, earnings per share, as if the fair value based methods of accounting defined by SFAS 123 had been applied. SFAS 123 is applicable to fiscal years beginning after December 15, 1996.

The Company accounts for its stock options under Canadian GAAP, which, in the Company's circumstances are not materially different from the amounts that would be determined under the provisions of the Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for its stock option plan. No compensation expense has been charged to the statement of operations for the plan for the years ended December 31, 1998 and 1997. Had compensation expense for the Company's stock-based compensation plan been determined based on the fair value at the grant dates for awards under the Plan consistent with the method under the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 "Accounting for Stock-based Compensation" ("SFAS 123"), the Company's net income and earnings per share would have been reported as the pro-forma amounts indicated in the table below. The fair value of each option grant was estimated on the date of the grant using the fair value recognition method, with the following assumptions: risk free interest rate of 4% (1997 and 1996 – 6%) dividend yield of 0%, theoretical volatility assumption of .40, vesting provisions for options granted in 1998, (no vesting provisions in 1997 and 1996) and the expected lives of options of 5 years (1997 and 1996 – 3 years).

| | **1998** | | 1997 | | 1996 | |
|---|---|---|---|---|---|---|
| | **As Reported** | **Pro-forma** | As Reported | Pro-forma | As Reported | Pro-forma |
| Net income (loss) – U.S. GAAP | **$ (7,784,637)** | **$ (7,954,017)** | $ (588,624) | $ (1,129,724) | $ 988,743 | $ 624,533 |
| Net earnings (loss) per share* | | | | | | |
| Basic | **(1.19)** | **(1.22)** | (0.09) | (0.17) | 0.19 | 0.12 |
| Diluted | **(1.19)** | **(1.22)** | (0.09) | (0.17) | 0.18 | 0.11 |
| Weighted average fair value of options granted during this period | **0.00** | **0.55** | 0.00 | 1.97 | 0.00 | 1.17 |

* Reflects the Statement of Financial Accounting Standards No. 128 which was adopted in the fourth quarter of 1997. "Basic" net income per share only includes shares outstanding in the calculation. "Diluted" net income per share includes options and warrants in the calculation. Prior periods' net income per share amounts have been restated to reflect this presentation.

(c) Disclosures about segments of enterprise and related information required under SFAS 131

Issued by the Financial Accounting Standards Board in June 1997, SFAS 131 required publicly-traded companies to report financial and other information about key revenue-producing segments of the entity for which such information is available and is utilized by the chief operating decision maker.

The company's products are all similar in nature, all sold within the same geographical area to the similar customers in one industry.

The customers with sales that exceed 10% of total revenue are listed below.

| Canadian dollars in thousands | **1998** | 1997 | 1996 |
|---|---|---|---|
| Rogers Cable | | | |
| Systems Limited | **7,844** | 12,406 | 10,512 |
| Eastlink Cable | | | |
| Systems | **4,775** | *— | *— |
| Shaw Communications | | | |
| Inc. | *— | 5,532 | 12,626 |
| Videotron | *— | 4,522 | 6,518 |

(*) Represents less than 10% of total revenue.

(d) Recent United States Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. SFAS 133 is effective for the company's 1999 fiscal year.

## 16. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

# CORPORATE INFORMATION

## OFFICERS

ARNOLD S. TENNEY
Chairman

D. GREGORY WALLING
President and
Chief Executive Officer

SHELDON M. RITTENBERG
Vice Chairman

RON EILATH
Executive Vice President
and Chief Financial Officer

JEFFREY D. CHELIN
Secretary and
Treasurer

## DIRECTORS

JEFFREY D. CHELIN (1)

JAMES L. FAUST
Chief Executive Officer of
Evolve Corporation,
Director of
ANTEC Corporation

MARSHALL GELLER
Chairman and Chief
Executive Officer of
Geller & Friend Capital
Partners, Inc.

IAN S. LURIE (1)(2)
Director Vice President,
Finance of Standard Radio
Inc. (a broadcasting and
communications company)

LAWRENCE A. MARGOLIS
Executive Vice President,
Chief Financial Officer
and Secretary,
ANTEC Corporation

M. DAVID PRUSSKY (1)(2)
Partner of Patica
Corporation (an
investment banking firm)

Sheldon M. Rittenberg

Arnold S. Tenney (2)

(1) Member of the
audit committee
(2) Member of the
compensation committee

**HEAD OFFICE**
Cabletel Communications
Corp.
7100 Woodbine Avenue
Suite 311
Markham, Ontario
Canada L3R 5J2
Tel: (905) 475-1030

**SUBSIDIARY**
Stirling Connectors Inc.
7100 Woodbine Avenue
Suite 311
Markham, Ontario
Canada L3R 5J2
Tel: (905) 475-6920

**SHARES TRADED**
Toronto Stock Exchange
Symbol: TTV

American Stock Exchange
Symbol: TTV

**TRANSFER AGENTS AND REGISTRAR**
Montreal Trust Company
151 Front Street West
Suite 800
Toronto, Ontario
Canada M5J 2N1

Bank of New York
Church St. Station
New York, NY 10286
USA

**AUDITORS**
Kraft, Rothman, Berger, Grill,
Schwartz & Cohen
Markham, Ontario
Canada L3R 3Y2

**BANKER**
Hongkong Bank of Canada

**COUNSEL**
Davies, Ward & Beck
Toronto, Ontario Canada

Gorden, Altman, Butowsky,
Weitzen, Shalov & Wein
New York, NY 10036 USA

**ANNUAL MEETING**
The Annual Meeting of
Shareholders will be held at
2:00 pm on June 23, 1999
in the Library Room of the
Royal York Hotel.

**ADDITIONAL INFORMATION**
For copies of annual and
quarterly reports and the
form 10K annual report filed
with the U.S. Securities and
Exchange Commission, write
to: The Secretary
Cabletel Communications
Corp.
7100 Woodbine Avenue
Suite 311
Markham, Ontario
Canada L3R 5J2

www.cabletel.on.ca

CABLETEL
COMMUNICATIONS CORP.

Cabletel Communications Corp.
7100 Woodbine Avenue, Suite 311, Markham, Ontario Canada L3R 5J2